

**LARUE COUNTY SCHOOL DISTRICT**

BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2003

**LARUE COUNTY SCHOOL DISTRICT**

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Larue County School District  
Hodgenville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Larue County School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 9, and the Budgetary Comparison Information on pages 39 through 40, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated October 21, 2003, on our consideration of Larue County School District's internal control over financial reporting and/or tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Larue County School District's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 45 through 46 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants  
October 21, 2003

**LARUE COUNTY SCHOOL DISTRICT – HODGENVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2003**

The discussion and analysis of Larue County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to review the School District’s financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District’s financial performance.

The Management’s Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local governments* issued in June 1999.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$4.7 million.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The District completed the construction of Hodgenville Elementary School.
- Due to the decline of interest rates and the use of funds in construction, interest income fell \$169,000; that is a 46.5 percent decrease.
- During fiscal 2003, the District felt little impact of the declining economy other than the reduction in interest income. However, we anticipate flat to falling revenue by fiscal 2004.
- The General Fund had \$12.8 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$12.3 million in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s total debt decreased by \$356,000 during the current fiscal year.

**USING THIS ANNUAL REPORT**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 - 11 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. The only fiduciary funds are agency funds for student education. The only proprietary funds are our food service and childcare operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 38 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3.5 million as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Assets for the period ending June 30, 2003  
(Table 1)**

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year's would be misleading to the reader however the District looks forward to offering comparative data in the future.

	<u>Government Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and Other Assets	\$ 3,315,203	\$ 512,497	\$ 3,827,700
Capital Assets	14,463,959	1,276,428	15,740,387
<b>Total Assets</b>	<b><u>\$ 17,779,162</u></b>	<b><u>\$ 1,788,925</u></b>	<b><u>\$ 19,568,087</u></b>
Long-term Debt	\$ 14,907,277	\$ -	\$ 14,907,277
Other Liabilities	1,151,736	2,670	1,154,406
<b>Total Liabilities</b>	<b><u>\$ 16,059,013</u></b>	<b><u>\$ 2,670</u></b>	<b><u>\$ 16,061,683</u></b>
<b>Net Assets</b>			
Investment in capital assets (net of debt)	\$ (630,822)	\$ 1,276,428	\$ 645,606
Restricted	857,738		857,738
Unreserved Fund Balance	1,493,233	509,827	2,003,060
<b>Total Net Assets</b>	<b><u>\$ 1,720,149</u></b>	<b><u>\$ 1,786,255</u></b>	<b><u>\$ 3,506,404</u></b>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District implemented GASB 34 and recorded fixed assets and debt for the first time.

**Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2003, net of Interfund transfers, were \$17.6 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$2.2 million more than budget or approximately 20%.
- The total cost of all programs and services was \$17.1 million net of debt service.
- General fund budget expenditures to actual varied significantly in Instruction and District Administrative Support. This resulted from the District not budgeting on-behalf payments made by the State of Kentucky as instructed by the Department of Education and not having to spend budgeted contingency funds.



The following Table 2 presents a summary of changes in net assets for the fiscal year ended June 30, 2003.

	(Table 2)		
	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Totals</u></b>
<b>Program Revenues:</b>			
Charges for services	\$ 6,165	\$ 610,977	\$ 617,142
Operating grants	3,188,459	767,859	3,956,318
General revenues:			
Taxes	2,547,738		2,547,738
State Aid-Formula Grant	10,235,845		10,235,845
Investment Earnings	177,213	15,983	193,196
Transfers		813,543	813,543
Gain (loss) on sale of assets			-
<b>Total Revenues</b>	<b>\$ 16,155,420</b>	<b>\$ 2,208,362</b>	<b>\$18,363,782</b>
<b>Program Expenses:</b>			
Instruction	\$ 9,971,108	\$ -	\$ 9,971,108
Student support services	763,121		763,121
Instructional support	610,630		610,630
District administration	487,667		487,667
School administration	808,584		808,584
Business support	123,672		123,672
Plant operations	1,145,421		1,145,421
Student transportation	900,855		900,855
Central office support	141,261		141,261
Community support	156,744		156,744
Facility acquisition/construction	9,000		9,000
Interest on long-term debt	683,154		683,154
Other	6,099		6,099
Food service		997,410	997,410
Childcare		253,685	253,685
Transfers	813,543		813,543
<b>Total Expenses</b>	<b>\$ 16,620,859</b>	<b>\$ 1,251,095</b>	<b>\$17,871,954</b>
<b>Increase (decrease) in net assets</b>	<b>\$ (465,439)</b>	<b>\$ 957,267</b>	<b>\$ 491,828</b>

#### **Governmental Activities**

Instruction comprises 60% of governmental program expenses. Support services expenses make up 31% of government expenses. The remaining expense for interest and transfers accounts for the remaining 9% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)

	<b>Governmental Activities Total Cost of Services 2003</b>	<b>Net Cost of Services 2003</b>
Instruction	\$ 9,971,108	\$ 7,178,171
Support services	5,957,597	4,742,367
Facility acquisition/construction	9,000	9,000
Interest on long-term debt	683,154	683,154
Transfers	<u>-</u>	<u>813,543</u>
<b>Total Expenses</b>	<b><u>\$ 16,620,859</u></b>	<b><u>\$ 13,426,235</u></b>

### **Business-Type Activities**

The business-type activities include the food service and childcare operations. These programs had total revenues of \$1,394,819 and expenses of \$1,251,095 for fiscal year 2003. Of the revenues, \$610,977 was charges for services, \$767,859 was from State and Federal grants, \$15,983 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

### **The School District's Funds**

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$17,928,127 and expenditures and other financing uses of \$19,065,825. Net changes in fund balances for the year were most significant in General Fund \$468,829, and Construction Fund (\$1,471,953).

The increase in General Fund was due to closely monitoring costs. The decrease in Construction Fund was due to the completion of Hodgenville Elementary School which was paid for with bond funds obtained in the prior fiscal year.

### **General Fund-Budget Highlights**

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$10,591,720 with actual amounts of \$12,800,854. Budgeted expenditures of \$12,166,446 compare with actual expenditures of \$12,314,415.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

At the end of fiscal year 2003 the School District had \$15,740,387 invested in land, buildings, equipment, and construction in progress, and \$14,463,959 in governmental activities. Table 4 shows fiscal year 2003 balances.

**(Table 4)**  
**Capital Assets at June 30, 2003**  
**(Net of Depreciation)**

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Totals</u></b>
Land and land improvements	\$ 850,129	\$ -	\$ 850,129
Buildings and improvements	12,421,316	1,033,813	13,455,129
Technology	486,866	12,577	499,443
Vehicles	508,406		508,406
General equipment	197,242	230,038	427,280
Construction in progress			
<b>Total</b>	<b><u>\$ 14,463,959</u></b>	<b><u>\$1,276,428</u></b>	<b><u>\$ 15,740,387</u></b>

#### **Debt**

At June 30, 2003, the School District had \$15,050,000, in bonds outstanding, of this amount \$3,794,888 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$490,000 is due within one year.

#### **District Challenges for the Future**

Larue County School District's financial status has improved in the last fiscal year. This improvement was the result of an increase in state revenues and a reduction of expenditures. However, as we look forward, we expect unfunded mandates to have an impact on our District.

The School District has continued to improve facilities by building new and renovating existing schools. These new and renovated facilities come with additional personnel cost (both administrative and support staffs). These facilities also have a cost for computers, library books, instructional materials, and other items that are primarily paid from the General Fund. These costs along with the need to add or renovate additional buildings in the next few years will create more challenges for the School District.

The costs associated with growth have in the past been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Additional factors concerning our School District's financial status include the implementation of various unfunded mandates. Examples include the Flex Fund accounts (Professional Development, Safe Schools, Preschool, Textbooks and Extended School Services). State funding for these programs does not meet our instructional needs as a District. Therefore, local generated funds will have to address these areas. Also, the uncertainty of state budgeted revenue projections may impact our funding as well as future mandated salary increases for all certified personnel. In addition, the full effect of No Child Left Behind (NCLB) has yet to be determined. Funding for this program is not equal to the mandates required by the Federal Government.

With careful planning and monitoring of our finances, Larue County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Sam Sanders, Superintendent, 208 College Street, Hodgenville, Kentucky, (270) 358-4111.

## **BASIC FINANCIAL STATEMENTS**

## **FUND FINANCIAL STATEMENTS**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

Year Ended June 30, 2003

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Reporting Entity

The Larue County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Larue County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Larue County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Larue County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Larue County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.



## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 through 46. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Childcare Fund accounts for the day care operations of the District.

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

#### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

##### Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

##### Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2003, to finance operations were \$.437 per \$100 valuation for real property, \$.437 per \$100 valuation for business personal property and \$.552 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

##### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

#### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### Budgetary Process

**Budgetary Basis of Accounting:** The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003.

##### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

##### Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

##### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

##### Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

##### Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

##### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

##### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

##### Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

##### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments and Interpretation No. 6. Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District’s programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The School District made several changes in accounting principles during the year. For governmental activities, they began recording the current portion of the accumulated sick leave liability, removed long-term investments not to be used for current expenditures, and began accounting for technology fund revenues in the special revenue fund. These changes bring the District’s funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance – The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 1,668,725	\$ 171,842	\$ 847,534	\$1,473,507	\$ 4,161,608
 GASB 34 Adjustments:					
Capital Assets					
– Net of Depreciation					14,254,358
Long-Term Liabilities					(15,591,897)
 Accumulated sick leave - long-term portion					(405,771)
 Accrued interest payable					<u>(232,710)</u>
 Governmental Activities					
Net Assets, June 30, 2002					<u>\$ 2,185,588</u>



## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE – CONTINUED

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that have not previously been recorded on the books. Changes as a result of the GASB 34 implementation are as follows:

	<u>Food Service</u>	<u>Childcare</u>	<u>Total</u>
Net Assets, June 30, 2002	\$ 430,818	\$ 27,182	\$ 458,000
Additional fixed assets	<u>370,043</u>	<u>945</u>	<u>370,988</u>
Adjusted Net Assets, June 30, 2002	<u>\$ 800,861</u>	<u>\$ 28,127</u>	<u>\$ 828,988</u>

As proprietary funds are already on the accrual basis, no adjustments are necessary for the Statement of Net Assets.

#### NOTE C – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE D – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$4,006,907. Of the total cash balance, \$169,541 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Bank of Magnolia	\$ 3,937,367	\$ 3,338,051
Bank of Buffalo	11,325	11,325
Lincoln National Bank	<u>58,215</u>	<u>58,177</u>
Total	<u>\$ 4,006,907</u>	<u>\$ 3,407,553</u>

Breakdown per financial statements:

Governmental funds	\$ 2,778,056
Business-type funds	469,036
Agency funds	139,611
Private Purpose Trust funds	<u>20,850</u>
	<u>\$ 3,407,553</u>

# LARUE COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

### NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

Governmental Activities	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Land and land improvements	\$ 1,392,964	\$ -	\$ -	\$ 1,392,964
Buildings and improvements	8,908,830	7,698,940	675,080	15,932,690
Technology equipment	1,523,612	241,755		1,765,367
Vehicles	1,510,619	53,604		1,564,223
General equipment	730,535	162,653	138,463	754,725
Construction in progress	6,307,711	1,523,212	7,830,923	-
Totals at historical cost	20,374,271	9,680,164	8,644,466	21,409,969
Accumulated depreciation:				
Land improvements	489,088	53,747		542,835
Buildings and improvements	2,896,616	614,758		3,511,374
Technology equipment	1,210,385	68,116		1,278,501
Vehicles	995,462	60,355		1,055,817
General equipment	528,362	29,121		557,483
Total accumulated depreciation	6,119,913	826,097	-	6,946,010
Government Activities Capital Assets - Net	<u>\$ 14,254,358</u>	<u>\$ 8,854,067</u>	<u>\$ (8,644,466)</u>	<u>\$ 14,463,959</u>
Business-Type Activities				
Buildings and improvements	\$ 580,138	\$ 675,080	\$ -	\$ 1,255,218
Technology equipment	42,180			42,180
General equipment	344,430	166,034		510,464
Totals at historical cost	966,748	841,114	-	1,807,862
Accumulated depreciation:				
Buildings and improvements	185,078	36,327		221,405
Technology equipment	28,382	1,221		29,603
General equipment	265,653	14,773		280,426
Total accumulated depreciation	479,113	52,321	-	531,434
Government Activities Capital Assets - Net	<u>\$ 487,635</u>	<u>\$ (788,793)</u>	<u>\$ -</u>	<u>\$ 1,276,428</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 692,857			
Student support	593			
Instructional staff	3,800			
District administration	1,420			
School administration	573			
Business support	683			
Plant	3,343			
Transportation	122,792			
Central office	36			
	<u>\$ 826,097</u>			

## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE F – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1997	\$ 1,515,000	4.1% - 5.2%
1998	5,685,000	4.4% - 4.5%
2001	8,170,000	2.7% - 5.0%
2003	1,075,000	1.35% - 3.5%

On January 1, 2003, the District issued \$1,075,000 in 2003 Series Refunding Revenue Bonds with an average interest rate of 2.65 percent to partially advance refund \$895,000 of outstanding 1994A Series bonds with an average interest rate of 5.72 percent and to advance refund \$91,000, of outstanding 1994A Series bonds with an average interest rate of 5.92 percent. The net proceeds of \$1,047,433 (after \$18,998 in cost of issuance and \$10,751 of discount and \$2,182 in accrued interest) were deposited in the Debt Service Fund. An amount of \$1,045,251, was used to purchase collateralized certificates of deposit. Those certificates of deposit were deposited in an irrevocable trust with an escrow agent to provide for the refunded future debt service payments on the 1994A and 1994B Series bonds. As a result, the 1994A and 1994B Series bonds that were advance refunded are considered to be defeased and the liability for those bonds has been removed from bonds payable in the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$59,251. This difference, reported in the accompanying government-wide statement of net assets as a deduction from bonds payable, is being charged to operations through the year 2014 using the effective-interest method. The District completed the partial advance refunding and advance refunding to reduce its total debt service payments over the next 11 years by \$78,938 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$67,459.

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Larue County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

# **LARUE COUNTY SCHOOL DISTRICT**

## **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

### **NOTE F – LONG-TERM OBLIGATIONS - CONTINUED**

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2003-04	\$ 490,000	\$ 663,008	\$ 341,683	\$ 811,325
2004-05	505,000	645,374	338,787	811,587
2005-06	520,000	626,986	338,787	808,199
2006-07	540,000	607,160	338,786	808,374
2007-08	560,000	585,729	338,786	806,943
2009-13	3,180,000	2,551,980	1,678,917	4,053,063
2014-18	3,485,000	1,821,529	1,272,228	4,034,301
2019-23	3,465,000	978,945	715,181	3,728,764
2024-27	<u>2,305,000</u>	<u>237,625</u>	<u>                    </u>	<u>2,542,625</u>
	<u>\$ 15,050,000</u>	<u>\$ 8,718,336</u>	<u>\$ 5,363,155</u>	<u>\$ 18,405,181</u>

#### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$15,406,000	\$1,075,000	\$ 1,431,000	\$15,050,000	\$ 490,000
Accrued sick leave	<u>408,550</u>	<u>75,403</u>	<u>25,388</u>	<u>458,565</u>	<u>111,621</u>
Governmental Activities:					
Long-term liabilities	<u>\$15,814,550</u>	<u>\$1,150,403</u>	<u>\$ 1,456,388</u>	<u>\$15,508,565</u>	<u>\$ 601,621</u>

The Debt Service Fund is primarily responsible for paying the bond obligations through funding from the Capital Outlay and FSPK funds. The General Fund is primarily responsible for paying accrued sick leave.

## LARUE COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year Ended June 30, 2003

#### NOTE G – CAPITAL LEASE PAYABLE - CONTINUED

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2003</u>
Buses	\$ 98,992

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2003:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2004	\$ 56,476
2005	48,173
2006	<u>48,048</u>
Total minimum lease payments	152,697
Less: Amount representing interest	<u>(13,916)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 138,781</u>

#### NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2003, as follows:

Year ending

June 30, 2004	\$ 17,400
June 30, 2005	17,400
June 30, 2006	<u>14,500</u>
Total	<u>\$ 49,300</u>

Rent expense for the year ended June 30, 2003, was \$37,230.

#### NOTE I – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE I – RETIREMENT PLANS – CONTINUED**

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$967,301 were made by the State of Kentucky and \$85,951 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$773,316 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$10,335,988, and \$8,037,029 of such amount related to employees covered by the retirement plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 6.34% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2003 was \$243,866, which consisted of \$136,767 from the District and \$107,099 from the employees. The total covered payroll for CERS during the year was \$2,141,962. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

#### **Deferred Compensation**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

#### **NOTE J - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

#### **NOTE K - LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

#### **NOTE L - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which includes Workers' Compensation insurance.

#### **NOTE M - RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE N - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Special Revenue Fund	\$ 143,224
Debt Service Fund	110,344
Construction Fund	1,471,953

#### **NOTE Q - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).



**LARUE COUNTY SCHOOL DISTRICT****NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year Ended June 30, 2003

**NOTE P - TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 17,610
Operating	SEEK Capital Outlay	Debt Service	Debt Service	217,740
Operating	FSPK Fund	Debt Service	Debt Service	462,360

**NOTE Q – INTERFUND RECEIVABLES AND PAYABLES**

There is no interfund balances at June 30, 2003.

**NOTE R – ON-BEHALF PAYMENTS**

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2003, was \$1,959,309.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## **SUPPLEMENTARY INFORMATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

## **LARUE COUNTY SCHOOL DISTRICT**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2003

#### **NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Larue County School District and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**LARUE COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2003**

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_X\_\_no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_yes \_\_X\_\_none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes \_\_X\_\_no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_X\_\_no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_X\_\_yes \_\_\_\_\_

Type of auditor's report issued on compliance for major programs (qualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_X\_\_yes \_\_\_\_\_no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program
10.553	National School Breakfast Program
10.559	Summer Feeding Program
84.027	Idea B
84.173	Idea B - Preschool
84.367A	Teacher Quality

Dollar threshold used to distinguish Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_yes \_\_X\_\_no

## **Section I-Summary of Auditor's Results**

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### **Section II – Financial Statement of Findings**

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No matters were reported.

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### **Section III – Federal Award Findings and Questioned Costs**

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REFERENCE NUMBER 03-1

DEPARTMENT OF EDUCATION – Idea B CFDA No. 84.027 – Grant period – Year ending June 30, 2003; Idea B – Preschool – CFDA No. 84.173 – Grant period – Year ending June 30, 2003

CRITERIA – Personnel activity reports and/or periodic certifications to substantiate payroll charges are required to be completed under the provisions of OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

STATEMENT OF CONDITION – Documentation of preparation of personnel activity reports and/or periodic certifications was not completed for all employees charged to the Idea B and Idea B – Preschool grants.

EFFECT OF THE CONDITION – The personnel costs for which documentation could not be located may be disallowed.

QUESTIONED COSTS – The personnel costs for which documentation could not be located resulted in questioned costs for the Idea B and Idea B – Preschool Grants of \$243,864.

CAUSE OF CONDITION - Program administrators did not follow the payroll documentation requirements provided by the Finance Department.

RECOMMENDATION – Larue County School District should ensure that program administrators follow the documentation requirements for payroll charges to federal programs.



## **SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**LARUE COUNTY SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

June 30, 2003

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Larue County School District  
Hodgenville, Kentucky

We have audited the basic financial statements of Larue County School District as of and for the year ended June 30, 2003, and have issued our report thereon dated October 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

#### **Compliance**

As part of obtaining reasonable assurance about whether Larue County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or state audit requirements. However, we noted certain immaterial instances of noncompliance that we have reported to management of Larue County School District in a separate letter dated October 21, 2003.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Larue County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Larue County School District in a separate letter dated October 21, 2003.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Larue County School District, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Certified Public Accountants  
October 21, 2003

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education  
Larue County School District  
Hodgenville, Kentucky

### **Compliance**

We have audited the compliance of Larue County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Larue County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Larue County School District's management. Our responsibility is to express an opinion on Larue County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Larue County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Larue County School District's compliance with those requirements.

As described in item 03-1 in the accompanying schedule of findings and questioned costs, Larue County School District, did not comply with requirements regarding payroll charges that are applicable to its IDEA and IDEA – Preschool programs. Compliance with such requirements is necessary, in our opinion, for Larue County School District, to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Larue County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### **Internal Control Over Compliance**

The management of Larue County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Larue County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Larue County School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 03-1. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Larue County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants  
October 21, 2003



## **MANAGEMENT LETTER COMMENTS**

Members of the Board of Education of  
Larue County School District  
Hodgenville, Kentucky

In planning and performing our audit of the basic financial statements of Larue County School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 21, 2003 contains our report on the District's internal control structure. This letter does not affect our report dated October 21, 2003 on the financial statements of the Larue County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Certified Public Accountants  
October 21, 2003

## **LARUE COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS**

June 30, 2003

### **UNCORRECTED PRIOR YEAR COMMENTS**

#### **Purchase Orders**

Completion of purchase orders prior to ordering goods is required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. At Magnolia Elementary, Buffalo Elementary and Larue County Middle School we noted that a purchase order is not always completed prior to ordering goods.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Annual Financial Report**

All investments are required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education to be included on the Annual Financial Report. At Buffalo Elementary, we noted that two certificates of deposit are not listed on the Annual Financial Report.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

## **LARUE COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2003

#### **CURRENT YEAR COMMENTS**

##### **Employee Vehicle Use**

During our audit, we noted that maintenance employees regularly drive Board vehicles for personal use. This use is not included in the employee's taxable income as required by the Internal Revenue Code (described in Publication 15-B).

##### **Management Response**

Employees will be notified of this requirement and will be given an option to include the taxable portion in taxable income or to drive their own vehicles.

##### **Segregation of Duties in Handling Receipts, Paying Bills and Preparing Bank Reconciliations – School Activity Funds**

During our audit, we noted that no schools complied with the segregation of duties requirements for handling receipts, paying bills and preparing bank reconciliations as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

##### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

##### **Accounts Receivable and Payable**

During our audit, we noted that no schools provided a list of accounts receivable and payable with their Annual Financial Reports as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

##### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

##### **Vending Machine Inventory**

During our audit, we noted that, at Magnolia Elementary and Larue County Intermediate School, vending machine inventory is not being monitored as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. These requirements emphasize that the vendor for full-service vending machines provide an inventory reconciliation to the school.

##### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

## **LARUE COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2003

#### **Vending Machine Procedures**

During our audit, we noted that, at Buffalo Elementary, the custodian stocks inventory and removes funds from vending machines. We recommend that two individuals participate in this process.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Deficit Fund Balances**

During our audit, we noted that Buffalo Elementary's candy/snack fund ended the year with a deficit fund balance. This is prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education. Funds should be transferred from the school's Central Fund to cover this deficit.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Payment of Staff Expenses from Activity Funds**

As required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education, activity fund monies generated by students should not be used for staff expenses. At Buffalo Elementary, we noted that food for a staff breakfast and refreshments for staff meetings were purchased from the Central Fund. Also, shirts and visors were purchased for staff and \$75 of gift certificates were given to staff members.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Collection of Funds from Students**

During our audit, we noted that at Buffalo Elementary, funds collected by teachers/sponsors were not always remitted to the school treasurer on the day collected. This is required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

## **LARUE COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2003

#### **Timely Deposit of Funds**

During our audit, we noted that at Larue County Middle School, funds for the month of December totaling \$27,704.48, were only deposited on one date for the entire month. *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education requires that deposits be made daily unless the school has less than \$100 on hand and be made no less frequently than weekly.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Use of Receiving Reports – School Activity Funds**

During our audit, we noted that Larue County Middle School did not use the receiving reports (or their equivalent) as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Booster Clubs**

During our audit, we noted that booster clubs supporting Larue County Middle School did not provide all the reports required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

#### **Cash Advances**

During our audit, we noted that Larue County High School does not use the Cash Advance/Expense report required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

## **LARUE COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2003

#### **Payment for Services**

During our audit, we noted that Larue County High School does not provide the Board with the amounts paid to non-district individuals for IRS 1099 purposes. This information is required to be provided by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

#### **Management Response**

The District will ensure that the requirements of *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education are followed and will hold meetings with school administrators to outline the requirements.

State Committee for School District Audits  
Members of the Board of Education  
Larue County Board of Education  
Hodgenville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Larue County School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated October 21, 2003. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.**

As stated in our engagement letter dated September 9, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.



## **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

## **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, do not indicate matters that could have a significant effect on the District's financial reporting process. In addition, management has made all adjustments proposed by us.

## **Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

## **Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the

District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

Certified Public Accountants  
October 21, 2003